# WHAT IS MORTGAGE FRAUD?

Mortgage fraud is **a material misstatement, misrepresentation, or omission** relied upon by an underwriter or lender to fund, purchase, or insure a loan. Mortgage fraud is divided into two categories: **fraud for property/housing and fraud for profit**. Fraud for property/housing entails misrepresentations by the applicant for the purpose of purchasing a property for a primary residence. This scheme usually involves a single loan. Although applicants may embellish income and conceal debt, their intent is to repay the loan. Fraud for profit, however, often involves multiple loans and elaborate schemes perpetrated to gain illicit proceeds from property sales.

**The Middle District of Florida Mortgage Fraud Surge focuses on fraud for profit**, casting a net for persons who have profited from mortgage fraud through multiple fraudulent transactions or professional access to the mortgage industry.

*(Sources: 2008 FBI Annual Mortgage Fraud Report "Year in Review"; USAO MDFL.)*

## SOME COMMON MORTGAGE FRAUD SCHEMES

<u>Property Flipping</u> - Flipping itself is not illegal; fraudulent flipping is. Fraudulent flipping often occurs when a perpetrator purchases property falsely appraised at a higher value and then quickly sells it, profiting from the false appraisal. Fraudulent flipping schemes also often involve doctored loan documentation, inflating buyer income, etc., and kickbacks to investors, property/loan brokers, appraisers, and title agents.

<u>Silent Second</u> - Silent Second fraud occurs when a buyer borrows the down payment from the seller through the issuance of a non-disclosed second mortgage. The primary lender believes the borrower has invested his own money in the down payment, when in fact, it is borrowed. The second mortgage may not be recorded further to conceal its status from the primary lender.

<u>Nominee Loans/Straw Buyers</u> - Straw buyer fraud occurs when a person conceals his or her identity through the use of a nominee with that nominee's consent, often relying on the nominee's better credit history, etc.

to apply for a loan the person otherwise could not have obtained. Both the buyer and the nominee are committing fraud.

Fictitious/Stolen Identity - the perpetrator uses a fictitious or stolen identity to apply for a loan.

Foreclosure Rescue Schemes - In rescue scheme fraud, the perpetrator identifies homeowners who are at risk of defaulting on loans or whose houses are already in foreclosure. He or she then misleads the homeowners into believing that they can save their homes if they transfer to the perpetrator the home’s deed and up-front fees or purchase loans through the perpetrator. The perpetrator profits by remortgaging the property or pocketing fees paid by the homeowner.

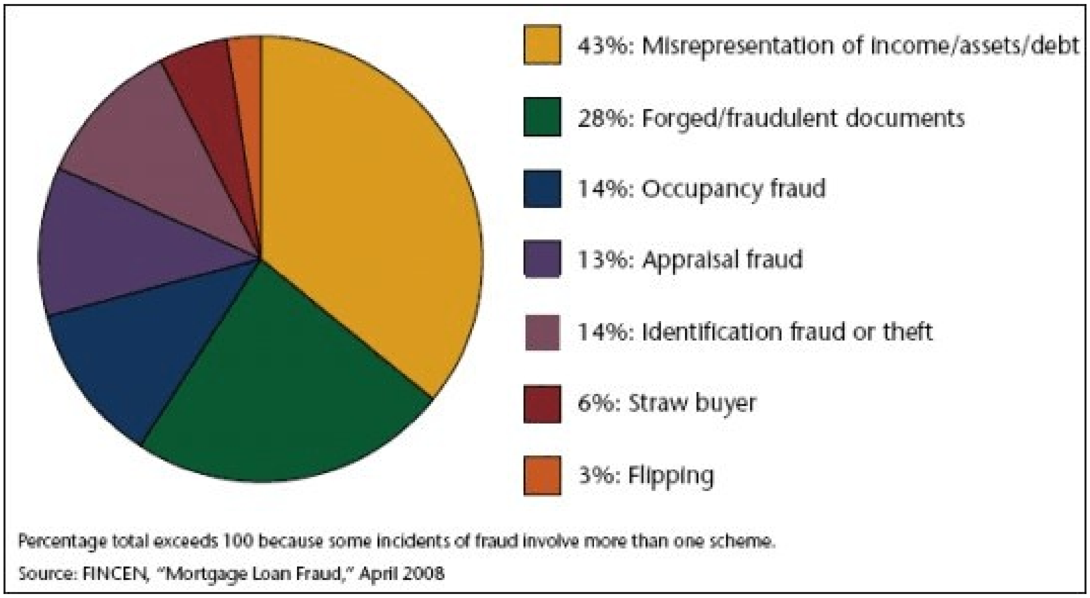
Equity Skimming - In equity-skimming fraud, the perpetrator investor may use a straw buyer, false income documents, and false credit reports to obtain a mortgage loan in the straw buyer's name. After closing, the straw buyer signs the property over to the investor in a quit claim deed which relinquishes all rights to the property and provides no guaranty to title. The investor does not make any mortgage payments and often rents the property for additional profit until the inevitable foreclosure on the property.

Air Loans - Perpetrators of Air Loan fraud obtain property loans for which there is no property or other collateral. The perpetrator may invent borrowers and properties, establish accounts for payments, and maintain custodial accounts for escrows. She or he may even set up telephone numbers for the “employer,” “appraiser,” etc., to provide the lender with “verification” of the false information.

Ponzi Schemes - The perpetrator solicits money from investors, selling interest in the same property to multiple investors or simply pocketing money and providing false documentation for the transactions

*(Sources: 2008 FBI Annual Mortgage Fraud Report "Year in Review"; USAO MDFL.)*

## RELATIVE OCCURRENCES OF SOME TYPES OF MORTGAGE FRAUD




## MORTGAGE FRAUD RED FLAGS

Possible Signs of Inflated Appraisals
- Exclusive use of one appraiser

Possible Signs of Broker or Appraiser fraud
- Bonuses paid (outside or at settlement) for fee-based services
- Higher than customary fees

Possible Signs of Loan Application Falsification
- Buyers told/explained how to falsify the mortgage application
- Buyer requested to sign a blank application

Possible Signs of Fraudulent Loan Documentation
- Buyer requested to sign blank employee or bank forms
- Buyer requested to sign other types of blank forms

Possible Signs of Purchase Loans fraudulently Disguised as Refinance
- Requires less documentation/lender scrutiny

Possible Signs of Fraudulent Flipping
- Investors used to flip property prices for fixed percentage
- Multiple "Holding Companies" utilized to increase property values

*(Source: FBI, Financial Crimes Report to the Public, May 2005.)*